Docket:	:	A.15-07-015
Exhibit Number	:	ORA - ____
Commissioner	:	Catherine Sandoval
Administrative Law Judge	:	Jeanne McKinney
ORA Witness	:	Julia Ende

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

*****PUBLIC VERSION (redacted)*****

REPORT
ON PAYROLL AND BENEFITS

California Water Service Company
Test Year 2017 General Rate Case
A.15-07-015

San Francisco, California
March 2016

MEMORANDUM

This Report on Payroll and Benefits for California Water Service Company GRC A.15-07-015 is prepared by Julia Ende of the *Office of Ratepayer Advocates (ORA) - Water Branch,* and under the general supervision of Program Manager Danilo Sanchez, and Program & Project Supervisors Lisa Bilir and Ting-Pong Yuen. Ms. Ende's Statement of Qualifications is in Chapter 7 of ORA's Company-Wide Report on Results of Operations. Kerriann Sheppard and Christa Salo serve as ORA legal counsels.

Report on Payroll and Benefits

Table of Contents

Chapter 1: EXECUTIVE SUMMARY

A. INTRODUCTION

This report addresses Payroll and Benefits expenses in General Rate Case Application 15-07-015 filed by California Water Service Company (Cal Water or CWS). In this chapter, ORA presents key recommendations from this report. In developing its recommendations, ORA reviewed CWS's District and GO Reports on Results of Operation, Direct Testimony Report, CWS's workpapers, and CWS responses to ORA Data Requests.

Chapters 2 to 3 of this report cover payroll expenses; Chapters 4 to 5 cover employee benefits; Chapters 6 to 7 cover the continuation of the Pension and Health Cost Balancing Accounts. Adjustments presented herein are reflected in ORA's Results of Operations Tables 1-1, 3-1 and 4-1 for each respective ratemaking area (see ORA's Company-Wide Report on the Results of Operations).

B. KEY RECOMMENDATIONS

Table 1-A below presents a comparison of Payroll and Benefits estimates by CWS and by ORA.

Table 1-A: Comparison of Payroll and Benefits – Test Year 2017

Expense Adjustments	CWS Request	ORA Recommendation	CWS > ORA
Customer Support Services / General Office Expensed Payroll	$26,568,200	$25,518,600	$1,049,600
District Expensed Payroll	$45,868,400	$45,262,600	$605,800
401(k)	$4,556,800	$4,530,100	$26,700
Pension Plan and Supplemental Executive Retirement Plan	$23,465,000	$11,778,000	$11,687,00
Group Health Insurance	$23,362,000	$20,051,300	$3,310,700
Expensed Workers' Compensation	$3,414,000	$2,438,000	$976,000
Executive Incentive Compensation	$2,956,700	$70,000	$2,886,700

Key ORA recommendations reflected in the above estimates are:

1) Remove excess salary above the level authorized in the last rate case from the base year payroll,
2) Remove salaries associated with five requested positions that CWS added to the base year salary,
3) Remove on-call premium pay expenses,
4) Remove Supplemental Executive Retirement Plan expenses,
5) Reduce 401(k) expenses,
6) Reduce Pension Plan expenses,
7) Reduce Group Health Insurance expenses,
8) Reduce Workers Compensation expenses, and
9) Remove expenses associated with executive officer incentive compensation.

Chapter 2: Payroll Expenses – Customer Support Services (General Office)

A. INTRODUCTION

This chapter presents ORA's analysis and estimates for Customer Support Services payroll expenses. CWS renamed the General Office (GO) as Customer Support Services (CSS). ORA's discussions presented herein focus on adjustments made to CWS's estimates. The resulting adjusted estimates are reflected in ORA's Results of Operations (RO) tables included in ORA's Company-Wide Report on RO.

B. SUMMARY OF RECOMMENDATIONS

Table 2-A below presents a summary of Test Year 2017 CSS total expensed payroll estimates.

Table 2-A: Comparison of CSS Total Expensed Payroll Estimate – Test Year 2017

CWS Request	ORA Recommendation	CWS > ORA
$26,568,200	$25,518,600	$1,049,600

Key recommendations reflected in the above estimates are:

1. ORA reduced CWS's starting 2014 base year payroll amount by $270,251. This adjustment relates to the portion of salaries for new hires that exceed the amount approved in the previous rate case, D.14-08-011.
2. ORA additionally removed $554,500 associated with salaries for five new positions CWS requested for 2015 that should be excluded from the Test Year revenue requirement.
3. ORA included $125,000 in 2017 expensed payroll for the salary for a proposed cross connection control manager related to CWS Special Request #5. A discussion regarding Special Request #5 can be found in ORA's Report on Special Requests 1, 2, 5, 11,17 and 23 (Selected Balancing and Memorandum Accounts), Chapter 2.

C. DISCUSSION

ORA investigated, analyzed and developed its recommendations based on the information and data from the Application, Direct Testimony, CWS General Report (Including Customer Support Services), Company workpapers, as well as information obtained from CWS employees through discussions, telephone conversations, emails and responses to discovery.

On Table 5-OMEX of the Company's filing, CWS allocated total payroll into the following categories: Operations and Maintenance (O&M) and Administrative and General (A&G). CWS estimates projected O&M expensed payroll costs of $3,845,100 in the Test Year 2017. In addition, CWS estimated projected A&G expensed payroll costs of $22,723,100 in Test Year 2017.

1. Forecasting Overview

To arrive at its forecasted general operations Test Year payroll, CWS begins with the recorded year ending December 31, 2014 as the base year. To this base payroll, CWS adds a combination of union negotiated wage escalation, adjustments from the Dominguez district merger synergies, and expensed payroll for requested additional staff. For 2015, 2016, 2017 and 2018, CWS applied the same methodology with respect to using the union negotiated wage increase, adopted merger synergies and expensed payroll additions requested.

a. Wage Escalation

CWS uses the Utility Workers of America Union and International Federation of Professional and Technical Employee Union negotiated wage increases of 3.25% for 2015 and 2.75% for years 2016-2018 for all (including non-union) CSS employees.

b. Adjustments

CWS added $1,676,100 to account for the Dominguez/CWS merger synergies as adopted in Decision (D.) 06-08-011 (see also WP6B16 Synergies).

c. Forecasting Methodology

CWS distributed the calculated Test Year payroll among Operations, Maintenance and A&G accounts, according to a calculated percentage ratio, which is a ratio of each account's recorded payroll to total recorded payroll for years 2010 through 2014. An average of these ratios was used to determine the distribution of total payroll for the Test Year to each payroll account (per Company workpaper WP5B3-Distribution of Payroll).

ORA accepts CWS's method for distributing its Test Year payroll between the O&M and A&G accounts. ORA used this same method for allocating ORA's recommended payroll between O&M and A&G, estimating O&M payroll of $3,693,200 in the Test Year 2017. For A&G payroll, ORA estimated $21,825,400 in the Test Year 2017. A comparison of ORA O&M payroll estimates with CWS O&M payroll estimates is summarized in **Table 2-B** below.

Table 2-B: 2017 CSS/GO O&M Payroll Expense

CWS Request	ORA Recommendation	CWS > ORA
$3,845,100	$3,693,200	$151,900

A comparison of ORA's A&G payroll estimate with CWS's A&G estimate is summarized in **Table 2-C** below.

Table 2-C: 2017 CSS/GO A&G Payroll Expense

CWS Request	ORA Recommendation	CWS > ORA
$22,723,100	$21,825,400	$897,700

2. Payroll Addition Overview

CWS included a total of 33.5 new CSS positions in this proceeding as shown on workpaper WP5B2 Payroll Additions. Specifically, this workpaper reflects 23.5 positions authorized in the last rate case which the Company describes as "Adjust for new hire." Two positions hired in 2013 and three positions hired in 2014 CWS describes in the workpaper as "Outside of GRC." In addition, five positions CWS describes in the workpaper as "New request" for 2015.

3. Status of D.14-08-011 Authorized New Positions

As noted above, CWS included a total of 23.5 positions for 2013, 2014 and 2015 which the Company designated as "Adjust for new hire." These positions were authorized in the settlement approved by the Commission in D.14-08-011 from CWS's last GRC in 2012 (A.12-07-007). D.14-08-011 adopted a comprehensive settlement that addressed payroll issues. The settlement authorized CWS to add 23.5 CSS positions in 2014. As discussed in the Prepared Testimony of Darin Duncan, as of May 2015, CWS had hired 26 (25 Full Time (FT) and 1 Part Time (PT)) CSS positions. CWS hired 16 (15 FT and 1 PT) of the specific positions identified in the decision and 10 different positions. CWS states the difference between the authorized 23.5 authorized positions and the 26 actual positions filled is due to changes in business needs that were not apparent at the time of the decision.[1] In addition, CWS states that delay in the approval of the settlement resulted in challenges to complete hiring during the Test Year.[2] **Table 2-D** below summarizes the status of approved positions.

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[1] Prepared Testimony of Darin Duncan, page 279.

[2] Prepared Testimony of Darin Duncan, page 279.

Table 2-D: CSS (GO) Positions Approved in D.14-08-011 for 2014[3]

Title	Department	Settlement Position	Approved Salary ($)	Actual Salary ($)	Hire Date[4]
Regulatory Cost Analyst (Memorandum & Balancing Account Emphasis)	Accounting	1	85,000	85,000	2015
Financial Planning & Analyst	Accounting	1	85,000	55,868	2013
Risk Management Analyst	Accounting	1	85,000	170,019	8/11/14
Continuous Improvement Assistant	Administrative	1	65,169	78,852	1/22/14
Environmental Health & Safety Project Manager	Administrative	1	67,600	91,520	2013
LIRA Manager (Part-time) (0.5 Full-time Equivalent)	Customer Service	0.5	47,500	61,089	2/18/14
Enterprise Asset Management Supervisor	Engineering	1	125,000	125,000	2015
Enterprise Asset Management Technician	Engineering	1	66,492		**Not hired**
Engineering Assistant	Engineering	1	70,488	70,488	2015
Cost Estimator	Engineering	1	79,734	99,361	2/18/14
Production & Tank Maintenance Engineer	Engineering	1	75,450		**Not hired**
SCADA Project Manager	Engineering	1	115,000	115,000	2015
Operational Data Management System Data Administrator	IT	1	85,000		**Not hired**
Business & Workflow Analyst	IT	1	95,000		**Not hired**
I.T. Security Specialist	IT	1	130,000	163,404	4/21/14
I.T. Applications Analyst	IT	1	105,000	127,982	2/10/14
Records Management System Administrator	IT	1	105,000		**Not hired**
Diversity Supplier Manager	Purchasing	1	75,000	83,054	1/15/14
Tariff & Compliance Manager	Rates	1	90,000	91,748	10/21/14
Senior IT Auditor	IT	1	85,000		**Not hired**
Audit Coordinator	Accounting	1	67,764	111,800	2/3/14
Senior Accounts Payable Clerk	Accounting	1	67,222	71,406	2013
Electrical Mechanical Superintendent	Engineering	1	95,000		**Not hired**
Electrical Mechanical Technician	Engineering	1	67,128		**Not hired**
TOTAL		**23.5**	**2,034,997**		

[3] WP5B2 Payroll Additions and D.14-08-011 Settlement Agreement, pages 72-73.

[4] As of May 2015.

The Commission authorized CWS $2,034,997 in payroll expenses for 24 (23 FT and 1 PT) new positions, which is an average salary of $84,792 per position. Of the 16 authorized positions CWS filled between 2013-2015, CWS hired 11 at a salary that exceeds the approved amount. In addition to the 16 filled positions listed in the table above, CWS hired 10 FT additional positions in 2013, 2014 and 2015 that were not specifically authorized by D.14-08-011.[5] CWS hired 25 (24 FT and 1 PT) new positions between 2013-2015 with total annual salaries in CSS/GO payroll expenses of $2,763,020, which is an average salary of $110,521. CWS has not provided justification for salaries that exceed the settlement amount. Therefore, ORA removes the excess $270,251 for the 11 authorized positions hired above the authorized amount from the base year 2014 before estimating the payroll expense for 2015-2018.

a. Allowed Positions

ORA is recommending the allowance of five of CWS's requested positions which are summarized in **Table 2-E** below. A brief discussion of each allowed position is below.

[5] The salary for Landscape Program Specialist position hired in 2015 is excluded from CSS/GO payroll and expenses and is included in the Conservation budget, discussed further below.

Table 2-E: GO Positions Hired Outside of GRC

BEGIN CONFIDENTIAL

Title	Salary ($)	Hire Date
Real Estate Counsel	[redacted]	12/4/13
Administrative Assistant	[redacted]	9/29/13
Security Analyst	[redacted]	5/12/14
Senior Procurement Buyer	[redacted]	9/23/14
Director of Field Admin and Finance	[redacted]	1/19/14
TOTAL	[redacted]	

END CONFIDENTIAL

Real Estate Counsel: In its justification for this position, CWS states this position specializes in acquiring property for new construction and addresses legal issues with regard to easements and property access. The benefit to customers is that with an experienced real estate person in this position, the company is less likely to have costly issues requiring legal services when resolving property issues. CWS states it hired this person outside of the normal rate case cycle so that it could make significant progress on its capital delivery program.[6]

Administrative Assistant: The stated purpose of the Administrative Assistant is to help with financial requirements. These include Sarbanes-Oxley reporting and Securities and Exchange Commission filing compliance. The company identified this need to help free-up higher level financial positions to address risk and focus on ensuring overall compliance.

Security Analyst: The Security Analyst is tasked with reviewing security and creating ongoing plans and recommendations in CSS and each district. The employee is responsible for investigating security breaches and signs of damage. The Company says that once this position was filled, the need for outside resources in this area has been reduced.

[6] Prepared Testimony of Darin Duncan, page 286.

Senior Procurement Buyer: CWS contends the Senior Procurement Buyer is needed to ensure compliance with GO-156 regarding diversity hiring and oversees portions of the Company's master construction contracts. The position coordinates with the Diversity Supplier Manager.

Director of Field Administration and Finance: CWS hired this position to act as a liaison between Rates, Accounting, and Finance Departments to the operating districts in ensuring coordinated and authorized activities and decisions.

4. New Positions in A.15-07-015

CWS states that it is not requesting any new CSS positions during the 2017-2019 rate case cycle. However, CWS is requesting approval for funding five new positions CWS hired in 2015 that were not authorized in the previous rate case. CWS contends these positions address human resources compliance. The positions and salary are summarized in **Table 2-F** below.

Table 2-F: 2015 New CSS Position Requests (hired outside of GRC in 2015)

BEGIN CONFIDENTIAL

Title	Salary ($)
Director of Compensation and Benefits	[redacted]
Landscape Program Specialist	[redacted]
Human Resources Business Partner	[redacted]
Employee Development Specialist (replacement for the trainee program)	[redacted]
Disability Case Manager	[redacted]
TOTAL	[redacted]

END CONFIDENTIAL

ORA reviewed all of the requested position justifications for the five new positions and recommends the salary for the positions be excluded from Test Year revenue requirement. ORA does not recommend funding for the new positions requested by CWS because ORA has not found reasonable justification or the need for these positions. The following section discusses each of the positions.

Director of Compensation and Benefits: As CWS discussed in the justifications for this position, the Director of Compensation and Benefits would split their time between four areas:

- Develop and oversee CWS's compensation strategy (30%)
- Conduct regular market surveys to ensure compensation program is market competitive (20%)
- Oversee the salary planning process for non-union employees (25%)
- Works with Talent Acquisition (Staffing) on all non-union job offers (25%)

There is insufficient justification for this position. CWS and the Utility Workers Union of American signed a new 6-year contract on February 19, 2015. CWS and the International Federation of Professional and Technical Employees also signed a new 6-year contract on February 19, 2015. These contracts, covering the majority of CWS's employee classifications, include a salary schedule through 2020, beyond the term of this rate case. The Company has frequently hired consultants to provide compensation surveys, and has not presented a calculation that this position is necessary or more cost effective than CWS's past approach. Further, it is unclear how this position differs from the responsibilities already performed by HR staff. CWS presented no evidence that the Company has retention or turnover concerns that would necessitate a full time Director of Compensation and Benefits. ORA removed the salary associated with this position from the estimate for the Test Year CSS payroll.

Landscape Program Specialist: CWS states this position was hired to comply with CPUC Resolution W-4976 regarding drought procedures. The position is not included in the payroll budgets and is separately accounted for in the conservation budget.

Human Resources Business Partner: CWS proposes this position as a resource regarding HR information for employees in the GO/CSS and central districts. The Company currently has HR Assistant and Analyst positions authorized that could be trained and dedicated to fulfill this need. This request lacks support and does not confer a clear benefit to ratepayers. ORA does not recommend allowing this position and removes the salary from the estimate for the Test Year CSS payroll.

Employee Development Specialist (replacement for the trainee program): As justification for the proposed position, CWS states that the Company spends money on outside employee development activities with a number of different organizations. CWS asserts that this position would assist in developing and delivering a singular training curriculum. CWS has not demonstrated a need for the proposed Employee Development Specialist position or presented any cost savings associated with bringing training in-house. If this position replaces a previously outsourced function, there should be a reduction to CWS's request for outside services expenses, which is not reflected in the workpapers. Without this reduction, authorizing this position could lead to double recovery. For these reasons, ORA recommends that this position be excluded from the Test Year revenue requirement.

Disability Case Manager: This position was hired to reduce workers' compensation cost by improved case management. The employee is responsible for analyzing claims, serving as a liaison between employees, managers and third party claims administrators. ORA agrees that having an effective functioning workers' compensation case management process is appropriate, but believes current staffing levels should be sufficient to fill the Company's needs in this area. CWS's request lacks support to justify the cost associated with this position. ORA does not recommend allowing this position and removes the salary from the estimate for the Test Year CSS payroll.

D. CONCLUSION

ORA reviewed CWS's payroll expense estimates. ORA recommends the Commission adopt ORA's Payroll expense estimates for the General Office/Customer Support Services.

Chapter 3: Payroll Expenses – Districts

A. INTRODUCTION

This chapter presents ORA's analysis and estimates for district payroll. ORA's discussions presented herein focus on adjustments made to CWS's estimates. The resulting adjusted estimates are reflected in ORA's Results of Operations (RO) tables included in ORA's Company-Wide Report on RO.

B. SUMMARY OF RECOMMENDATIONS

Table 3-A below presents a summary of Test Year 2017 District Payroll expense estimates.

Table 3-A: Comparison of District Payroll – Test Year 2017

CWS Request	ORA Recommendation	CWS > ORA
$45,868,400	$45,262,600	$605,800

The key recommendation reflected in the above estimates is the removal of on-call premium pay expenses, plus adjustments due to inflation.

C. DISCUSSION

1. D.14-08-011 Authorized New Positions

The settlement approved by the Commission in D.14-08-011 from CWS's last GRC authorized seven new positions at the district level, summarized in **Table 3-B**.

Table 3-B: New District Payroll Positions Authorized in D.14-08-011

Test Year 2014				
District	**Position**	**Count**	**Expensed Salary (in $1,000)**	**Hire Date[7]**
Bakersfield	Operations Maintenance Worker	0.6	35.4	12/2014
Bakersfield	Operations Maintenance Worker	0.6	35.4	1/2015
Bayshore	Operations Maintenance Worker	1.0	11.6	4/2015
Bayshore	Foreman – Hydrant Maintenance	1.0	73.5	10/2014
Bayshore	Inspector	1.0	9.5	5/2015
Bear Gulch	Inspector	1.0	41.2	2015
Chico	Customer Service Rep 4	1.0	46.5	11/2014
Total		6.3	253.2	

<u>Bakersfield</u>

Operation Maintenance Worker (2)

CWS filled one Operation Maintenance Worker position in December of 2014. The position was internally bid to the union in late 2014. The hiring was from inside the company, and was backfilled in January of 2015. CWS hired a Customer Service Representative in lieu of the other Operation Maintenance Worker. The position was filled by an existing employee January of 2015.

<u>Bayshore</u>

Hydrant Maintenance Foreman

CWS filled one Hydrant Maintenance Foreman position in October of 2015. The position was internally bid to the union. The position was filled and backfilled by existing employees.

[7] WP6B6b Complement.

Inspector

CWS filled one Inspector position in May of 2015. The position was internally bid to the union. The position was filled and backfilled by existing employees.

Operation Maintenance Worker

CWS filled one Operation Maintenance Worker position in April of 2015. The position was internally bid to the union in January 2015. There were no bids received for the position. The hiring was from outside the company.

Bear Gulch

Inspector

CWS filled the Inspector position in 2015. CWS hired an external person to backfill the successful bidder in 2015.

Chico

Customer Service Representative 4

CWS filled this position November 2014. The position was filled through the normal union bidding process and an existing employee received the position.

2. Forecasting Methodology

CWS estimates payroll costs for operations, maintenance, and administrative purposes collectively. Operation expenses are expenditures incurred in operating the water system. Maintenance expenses include the cost of repairing and maintaining the water system. A&G expenses comprise direct expenses incurred within the district and CWS general operations allocation.

a. Adjustments

To arrive at its forecasted Test Year payroll, CWS begins with the last recorded year ending December 31, 2014 as the base year in each district. To this base payroll, CWS adds a combination of union negotiated wage escalation,[8] adjustments from the Dominguez district merger synergies, expenses for on-call premium pay, and flat to meter adjustments per D.10-12-017. CWS is not proposing new complement for the districts in this general rate case and uses the salaries authorized in the previous rate case for the seven district employees hired in 2014 and 2015. For 2016, 2017 and 2018, CWS applied the same methodology with respect to using the union negotiated wage increase.

b. Removal of Expenses for District Call Out Program

As a result of union contract negotiations, effective January 1, 2015, CWS provides employees designated to be on-call to receive on-call pay of 15% of all straight time, overtime, double time and holiday pay for the week.[9] This program is in addition to the $250 bonus awarded to employees who take 15 or more annual call outs.[10] CWS estimated $477,606 in additional company-wide payroll costs for the new program and incorporated the expenses in its payroll forecast for the relevant districts.

ORA sent a data request and received the following information regarding expenses associated with the new program:

> **ORA DR JE6-014, Question 1:** Please provide dollar amounts of on-call compensation recorded in 2014 and 2015 by district.
>
> **CWS Response**: Historically, Cal Water pays Call-Out awards to employees who had called out on duty.
>
> These awards are paid on top of regular and overtime charges paid for the call-out. Cal Water recorded Call-Out awards of $44,750 for 2014 and $4,000 for 2015. Please see Attachment JE6-014(1a) Call-Out Awards for details.

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[8] CWS and the Utility Workers Union of American signed a new 6-year contract on February 19, 2015. CWS and the International Federation of Professional and Technical Employees also signed a new 6-year contract on February 19, 2015. The contracts specify wage increases of 3.25% in 2015 and 2.75% in both 2016 and 2017.

[9] CWS Partial Response #1 to DR JE6-012, Question 1, dated December 29, 2015.

[10] Attachment JE6-013(1a) Call Out LOU and 2015-2020 UWUA Agreement.

> Starting in 2015, Cal Water implemented an on-call program where 15% premium is applied to all regular and overtime charges when employees are called out on duty after office hours. Cal Water had recorded on-call premium of $743,255 for 2015. Please see Attachment JE6-014(1b) On-Call for details.

CWS did not provide a justification for a premium pay for on-call work on top of the straight time, overtime, double-time, holiday pay and call out award already provided for this work. CWS presented no evidence of increases in after-hours works or difficulty staffing that would justify an increase to $743,255 in payroll costs in 2015 from $44,750 in 2014 to complete the same level of work. Further, CWS's data request response above shows that actual program costs in 2015 ($743,255) exceeded the already significant initial estimate ($477,606) in the first year of the program. ORA accepts the overtime costs and bonus awards associated with on-call work that are built into the 2014 payroll expense. ORA removes $477,606 in on-call premium costs from the 2015 estimates.

CWS's and ORA's estimates for district payroll expenses are summarized in **Table 3-C** below.

Table 3-C: District Payroll Expenses – Test Year 2017

District	CWS Request	ORA Recommendation	CWS > ORA
Antelope Valley	$322,900	$301,300	$21,600
Bakersfield	$5,801,400	$5,737,000	$64,400
Bayshore	$3,311,900	$3,258,300	$53,600
Bear Gulch	$2,375,500	$2,353,000	$22,500
Chico	$2,997,800	$2,987,000	$10,800
Dixon	$322,900	$312,100	$10,800
Dominguez	$3,489,400	$3,468,200	$21,200
East Los Angeles	$3,429,100	$3,334,500	$94,600
Hermosa Redondo	$2,049,400	$2,032,400	$17,000
Kern River Valley	$816,400	$805,600	$10,800
King City	$404,100	$393,500	$10,600
Livermore	$1,233,100	$1,222,400	$10,700
Los Altos	$1,805,100	$1,783,700	$21,400
Marysville	$563,300	$552,500	$10,800
Oroville	$807,400	$796,000	$11,400
Palos Verdes	$2,328,100	$2,297,200	$30,900
Redwood Valley Coast Springs	$56,800	$56,800	--
Redwood Valley Lucerne	$531,800	$521,000	$10,800
Redwood Unified	$92,700	$81,900	$10,800
Salinas	$3,428,000	$3,385,000	$43,000
Selma	$618,000	$607,300	$10,700
Stockton	$4,149,800	$4,106,800	$43,000
Visalia	$3,702,400	$3,670,200	$32,300
Westlake	$845,400	$834,7000	$10,700
Willows	$385,700	$364,200	$21,500
TOTAL	$45,868,400	$45,262,600	$605,800

Payroll adjustments by district are summarized below:

Antelope Valley: CWS included $10,162 additional payroll costs for on-call premiums in 2015. This amount was added twice to the 2014 base year. ORA removes both additions.

Bakersfield: CWS adds $35,434 twice for two operations maintenance worker positions authorized in the previous rate case (and hired at the end of 2014 and beginning of 2015). CWS adds $61,000 in on call premium pay to the 2015 estimate. In 2017, CWS removes $322,000 for Flat to Meter Adjustment per D.10-12-017. ORA removes $61,000 in on call premium pay added in the 2015 estimate.

Bayshore: CWS adds payroll costs for personnel authorized in the last rate case: $8,724 for an Operation Maintenance Worker position hired in April 2014, $18,368 for a Hydrant Maintenance Foreman position hired in October 2014, and $3,170 for the expensed portion of an Inspector positions hired in 2015. ORA removes $50,800 for on-call premium pay added in the 2015 estimate.

Bear Gulch: CWS adds $41,211 for an Inspector position authorized in the 2012 general rate case. This position did not have a hire date as it had not been backfilled at the time of the application filing in this case.[11] ORA therefore removes the costs associated with this position from 2015 and includes them from 2016 onward. ORA also removes $20,300 for on-call premium pay added in the 2015 estimate.

Chico: CWS adds $10,162 in on call premium pay to 2014. In 2017, CWS removes $28,828 for Flat to Meter Adjustment per D.10-12-017. ORA removes $10,162 in on-call premium pay added in the 2015 estimate.

Dixon: ORA removes the addition of $10,162 in on-call premium pay.

Dominguez: CWS includes $314,700 to account for Dominguez district merger synergies. ORA removes the addition of $20,053 in on-call premium pay.

East Los Angeles: ORA removes the addition of $30,486 in on-call premium pay. ORA also removes an adjustment of $59,100 CWS added in 2015 without explanation.

Hermosa: CWS includes $195,200 to account for Dominguez district merger synergies. ORA removes the addition of $16,113 in on-call premium pay.

Kern River: ORA removes the addition of $10,162 in on-call premium pay.

King City: ORA removes the addition of $10,162 in on-call premium pay.

Livermore: ORA removes the addition of $10,162 in on-call premium pay.

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[11] WP6B6b Complement.

Los Altos: ORA removes the addition of $20,324 in on-call premium pay.

Marysville: In 2015, CWS removes $733 for Flat to Meter Adjustment per D.10-12-017. [12] ORA removes the addition of $10,162 in on-call premium pay.

Oroville: In 2015, CWS removes $733 for Flat to Meter Adjustment per D.10-12-017. [13] ORA removes the addition of $10,162 in on-call premium pay.

Palos Verdes: CWS included $14,643 additional payroll costs for on-call premiums in 2015. This amount was inadvertently added twice to the 2014 base year. ORA removes both additions. CWS includes $231,000 to account for Dominguez district merger synergies per D.06-08-011.

Redwood Valley Coast Springs: ORA's only adjustment is a correction to WP5A6, which omitted $20,900 in payroll allocation for year 2014.[14] ORA's RO tables use the uncorrected July workpapers as the basis for CWS requested revenue requirement total. Therefore, in the RO tables, ORA's recommended total payroll for Redwood Coast Springs exceeds CWS's request. After the $20,900 correction, the ORA and CWS recommendations match.

Redwood Valley Lucerne: ORA removes the addition of $10,162 in on-call premium pay.

Redwood Unified: ORA removes the addition of $10,162 in on-call premium pay.

Salinas: ORA removes the addition of $40,647 in on-call premium pay.

Selma: ORA removes the addition of $10,162 in on-call premium pay.

Stockton: ORA removes the addition of $40,647 in on-call premium pay.

Visalia: In 2015, CWS removes $8,220 for Flat to Meter Adjustment per D.10-12-017.[15] ORA removes the addition of $30,486 in on-call premium pay.

Westlake: ORA removes the addition of $10,162 in on-call premium pay.

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[12] Advice Letter 2064.

[13] Advice Letter 2064.

[14] CWS Response to ORA Data Request PXS-019, Question 4.

[15] AL 2068 refunded $561,132.20 of which $552,912.00 has been refunded. $8,220.00 remains to be refunded.

Willows: In 2015, CWS removes $634.44 for the Flat to Meter Adjustment.[16] ORA removes the addition of $10,162 in on-call premium pay.

D. CONCLUSION

ORA reviewed CWS's district payroll expense estimates. ORA recommends the Commission adopt ORA's district payroll expense estimates for the districts.

[16] AL 2069 refunded $18,474.44. $632.44 remains to be refunded. See also WP4B1 Willows.

Chapter 4: Employee Benefits

A. INTRODUCTION

This chapter presents ORA's analysis and estimates for company-wide benefit expense in Account 795 and subaccount 7941 Workers' Compensation Insurance. ORA's discussions presented herein focus on adjustments made to CWS's estimates. The resulting adjusted estimates are reflected in ORA's Results of Operations (RO) tables included in ORA's Company-Wide Report on RO.

B. SUMMARY OF RECOMMENDATIONS

2017 Expense Adjustments	CWS Request	ORA Recommendation	CWS > ORA
Removal of Supplemental Executive Retirement Plan and Reduction in Pension Plan	$23,465,000	$11,778,000	$11,687,000
Reduction in 401(k)	$4,556,800	$4,530,100	$26,700
Reduction in Group Health Insurance	$23,362,000	$20,051,300	$3,310,700
Reduction in Workers Compensation	$3,414,000	$2,438,000	$976,000

C. DISCUSSION

1. Components of benefits

Expenses in Account 795 – Employee Benefits expense include costs associated with the 401(k) plan, pension costs, group health insurance (including medical, dental, and vision), and retiree health care costs. CWS calculates the costs company-wide and then allocates them to the districts and General Office (GO) / Customer Support Service (CSS). The costs are also impacted by the Dominguez synergy adjustment.[17]

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[17] *See*: CWS General Report (Including Customer Support Services) , pages 19-20.

2. 401(k) Matching

A 401(k) is a defined contribution plan, meaning the amount contributed is fixed, but the benefit is not. Payouts are dependent on the returns of the invested funds. There are restrictions as to when and how employees can withdraw the funds without penalties.

CWS provides employees with a 401(k) program and matches 75% of employee pre-tax contributions up to 8% of payroll, capped at the IRS statutory contribution limit.[18] Therefore, CWS's maximum contribution under this program is 6% of Company payroll. Not all employees contribute the full matching amount offered in the program. Based on actual participation levels, CWS's matching contribution was approximately 5.7% of payroll in 2014.[19]

The following table presents CWS's 401(k) recorded expenses for the five years 2010 through 2014.

Table 4-A: Account 7951-1 – 401(k) Matching

2010	2011	2012	2013	2014
$2,992,049	$3,252,317	$3,747,911	$3,969,423	$4,110,907

To estimate 401(k) expenses CWS calculates the 2010-2014 5-year average of 401(k) contributions as a percentage of payroll. CWS multiplies this percentage, 5.4%, by the estimated Test Year 2017 payroll of $82,668,507. CWS adds to this investment consulting fees of $90,248 multiplied by ORA's composite escalation factor for 2017 for a total 401(k) contribution expense of $4,556,805 in Test Year 2017. ORA accepts the use of the 5.4% contribution rate and the methodology used by CWS. The difference between CWS's requested 401(k) matching costs and ORA's recommended cost is due to ORA's

[18] For information on annual limits, see: https://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-401k-and-Profit-Sharing-Plan-Contribution-Limits.

[19] Workpaper 6B6 Benefits.

modifications to the projected payroll costs to which the 5.4% is applied. ORA recommends 401(k) expenses of $4,530,100 for Test Year 2017.

The following table compares 401(k) benefits across the largest Class A Water utilities and public utilities that CWS states are its employment market competitors:

Table 4-B: Defined Contribution 401(k) Plan Benefit

Utility	Size	Defined contribution plan
California Water Service	969 employees 512,998 service connections	CWS matches 75% of employee contributions up to 8% of payroll, for a maximum of 6% of company payroll.
California American Water Company (CAW)[20]	269 employees 186,809 service connections	For employees hired on or before December 31, 2005, CAW matches 50% of the first 5% contributed by an employee (maximum Company match is 2.5%). For employees hired after December 31, 2005: • CAW matches 100% of the first 3% contributed by an employee plus 50% of the next 2% contributed by an employee (maximum Company match is 4%). • CAW contributes 5.25% of a new employee's salary to the Defined Contribution Plan (DCP), which is invested in the 401(k) to compensate for the fact that the employees are not eligible for the pension plan. [21]
Golden State Water Company	580 employees 258,493 service connections	For all employees: • GSWC matches 100% of the first 3% contributed by an employee plus 50% of the next 3% contributed by an employee (maximum Company match is 4.5%). For employees hired after January 1, 2011: • GSWC contributes 5.25% of a new employee's salary to compensate for the fact that the employees are not eligible for the pension plan. [22]
San Jose Water Company	278 employees 224,203 service connections	SJWC matches 100% of the employees' first 3% contribution and 50% of the employees' next 2% contribution (maximum 4%). Company contributions are immediately 100% vested.[23] Employees hired after March 31, 2008 receive an employer contribution according to the following schedule:[24] Years of Credited Service — Percent of Compensation Less than 5 — 5% 5 but less than 10 — 6% 10 but less than 15 — 7% 15 but less than 20 — 9% 20 or more — 11%

[20] CAW is part of American Water Works, the largest water IOU in the U.S.

[21] A.13-07-002, Direct Testimony of Jeffrey M. Dana, page 23.

[22] A.14-07-006, Prepared Testimony of Gladys Farrow, page 13.

[23] https://www.sjwater.com/about_us/san_jose_water/careers/benefits

[24] A.09-01-009, DRA Data Request JJS-1, Question 1, "Pension Restated March 31 2008."

Alameda County Water District	240 employees 300,000 customers	No employer matching for non-management employees. Management/Confidential Professional only: The District pays a matching of $500 per year to the employee’s 401(a).[25]
East Bay Municipal Utility District	2000 employees 1.3 million customers	No employer matching.[26]

3. Pension Plan Funding – Account 7951-2

CWS’s deferred compensation benefits for employees include a defined benefit pension plan. A defined benefit pension plan is a type of retirement plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, length of employment and age, rather than depending directly on individual investment returns. CWS has a Pension Cost Balancing Account (PCBA) which tracks the difference between authorized and recorded pension costs. The PCBA is discussed in Chapter 6 of this Report. The elements of CWS’s pension plan and benefit are summarized in Appendix A.

a. Pension benefit example

CWS’s basic formula for calculating the pension benefit for a new employee retiring at age 65 is (1.5% x final 3-year average pensionable pay x years of service) + (0.4% x final 3-year average pay above $15,600 x years of service). The following example assumes an employee is hired in 2015 and works for 30 years with a 3-year final average salary of $80,000.

[25] http://www.acwd.org/index.aspx?nid=199

[26] http://www.ebmud.com/index.php/download_file/force/1030/1128/?retirement-handbook-web.pdf

Benefit Percentage	1.5% annual earnings + 0.4% annual earnings in excess of $15,600
Average 3-year highest earnings	$80,000
Years of service (plan membership)	30
Formula calculation	(1.5% x $80,000 x 30 years) + (0.4% x ($80,000-$15,600) x 30 years)
Annual pension	**$43,728**
Pension as % of final compensation	**55%**

b. Pension plan funding

The dollar amount that CWS contributes to the pension plan is determined annually by Milliman USA (Milliman), an outside actuary. Milliman's valuation reflects the procedures and methods described in Financial Accounting Standards issued by the Financial Accounting Standards Board (FASB). FASB Statements Nos. 87, 88, 132, and 158 (recodified into Accounting Standards Codification (ASC) 715 on July 1, 2009) are accounting standards issued by FASB that require certain items be recognized and disclosed in the plan sponsor's statements.[27] Actuarial computations under ASC 715 are for purposes of fulfilling employer accounting requirements.

Under ASC 715-30, the Net Periodic Pension Cost (NPPC) is the amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of NPPC are service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of the net transition asset or obligation existing at the date of initial application of FASB No. 87. Milliman estimates per employee NPPC of $31,472 in 2015, $25,825 in 2016, $20,511 in 2017 and $20,255 in 2018, which includes

[27] Milliman Pension Actuarial Valuation dated January 27, 2012.

costs for the pension plan and the Supplement Executive Retirement Plan. Milliman recommends quarterly cash contributions to the pension plan to satisfy this requirement.

c. Comparability

Defined benefit pension plans have been in decline in the private sector over the past 25 years.[28] Pension plans are still prevalent in the public sector. However, in recent years, many public agencies have reduced the level of coverage and increased the contribution rate of employees in response to budget constraints as well as increased unfunded liabilities due to volatile investment returns.[29] The following table compares CWS and other utilities' defined benefit pension plan characteristics.

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[28] "The last private industry pension plans: a visual essay," http://www.bls.gov/opub/mlr/2012/12/art1full.pdf

[29] "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers," https://www.ssa.gov/policy/docs/ssb/v69n3/v69n3p1.html

Table 4-C: Defined Benefit Pension Plan Comparison

Utility	Size[30]	Defined Benefit Plan
California Water Service Company	969 employees 512,998 service connections	New employees enrolled in pension plan with a benefit of 1.5% of final average compensation at age 65 plus 0.4% of final average compensation in excess of $15,600. No employee contribution.
California American Water Company[31]	269 employees 186,809 service connections	Pension plan closed to new employees hired after December 31, 2005. No employee contribution.[32]
Golden State Water Company	580 employees 258,493 service connections	Pension plan closed to new employees hired after January 1, 2011.[33] No employee contribution.
San Jose Water Company	278 employees 224,203 service connections	Pension plan closed to new employees hired after March 31, 2008. No employee contribution.[34]
Alameda County Water District	240 employees[35] 300,000 customers[36]	New employees enrolled in pension plan with a benefit of 2% of final average compensation at age 62. New employee contribution equal to amount required by state law, as calculated by the California Public Employees' Retirement System (CalPERS). Classic pension members hired before 1/1/13, 8% employee contribution of salary.[37]
East Bay Municipal Utility District	2,000 employees[38] 1.3 million customers[39]	New employees enrolled in pension plan with a benefit of 2.5% of final average compensation at age 67. New employee contribution at least 50% of the normal cost of the defined benefit plan. Classic pension members hired before 1/1/13, 8.33% employee contribution of salary.[40]

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[30] For Class A IOUs: 2014 Annual Report Schedules C-3 and D-4.

[31] CAW is part of American Water Works, the largest water IOU in the U.S.

[32] A.09-01-013, Response to DRA Data Request JOH-002, Question 1, "Attchmt JOH-002 1A Pension Plan Union pdf" and "Attchmt JOH-002 1B Pension Plan Non Union" 1B "Pension Plan Non Union."

[33] A.14-07-006, Testimony of Gladys Farrow, page 2.

[34] A.09-01-009, DRA Data Request JJS-1, Question 1, "Pension Restated March 31 2008," pages 1 and 32.

[35] http://www.acwd.org/index.aspx?NID=9

[36] Population: 343,499 (January 2015. Source: California Department of Finance); Customers: 81,700 (June 2014); http://www.acwd.org/index.aspx?nid=93

[37] http://www.acwd.org/index.aspx?nid=199

[38] https://www.ebmud.com/jobs/

[39] https://www.ebmud.com/about-us/who-we-are/mission-and-history/

[40] https://www.ebmud.com/jobs/job-resources/employee-benefits-program/retirement-benefits/

CWS's pension plan is not comparable to the pension plans at utilities CWS identifies as its closest competitors for talent. As described below, employees contribute toward their pensions at comparable public utilities while employees do not contribute toward their pensions at CWS. Additionally, new employees at CWS may participate in the pension plan whereas comparable Class A water utilities closed their pension plans to new employees.

CWS identified Alameda County Water District (ACWD) and East Bay Municipal District (EBMUD) as competitors for talent in testimony in the previous rate case.[41] Both agencies sponsor pension plans. The pension formulas for new employees at the comparator utilities use slightly higher multipliers than CWS (2% for ACWD and 2.5% for EBMUD). The normal retirement age is higher[42] at EBMUD and lower at ACWD as compared to CWS. These differing levels of pension benefit could increase the cost of the pension plan per employee. However, unlike CWS, both municipal agencies require new employees to contribute toward the cost; ACWD at an amount required by state law, as calculated by CalPERS and EBMUD at an amount equal to at least 50% of the normal cost of the defined benefit plan. For both ACWD and EBMUD, classic pension members (members hired before 1/1/13) contribute 8% and 8.33%, respectively. In contrast, CWS employees contribute nothing. The employee contributions required by ACWD and EBMUD offset and may decrease the per employee pension cost to ratepayers for the higher benefit formula. Further, the employees at EBMUD receive no 401(k) matching benefit, and only management employees at ACWD receive a small employer match up to $500 (**see Table 4-C**).

[41] A.12-07-007, Rebuttal Testimony of Tom Smegal, page 26.

[42] Although CWS's Pension Plan (page 21) specifies that the normal retirement age is 65, a participant who has an accrued vested benefit may retire at age 60 to 65 with no reduction in benefits.

CWS also identifies San Jose Water Company as its closest employment market competitor.[43] California American Water Company and Golden State Water Company are two additional Class A water utilities that are similar in size to CWS and provide service in areas near CWS service territory, therefore can be considered competitors for market talent. All three investor-owned utilities have frozen their pension plan to new employees since at least 2011 (**see Table 4-C**).

CWS's level of retirement benefits far exceeds the benefits offered by market competitors. The Commission must also consider CWS's pension benefit in the context of CWS's 401(k) matching benefit. CWS offers employees receiving a defined pension benefit a level of 401(k) matching that exceeds the levels offered by the comparable Class A and municipal utilities. Comparable utilities shown in **Table 4-B** provide employees with pension benefits with 401(k) matching between 0% and 4.5%, which is substantially lower than CWS's 6%.

CWS's choice to continue a defined benefit plan with no employee contribution is not consistent with comparable utilities and puts an unfair cost burden on ratepayers. The decision to offer a generous pension plan is within CWS's discretion, but should be funded by shareholders in addition to the ratepayers.

ORA recommends that the Commission only require ratepayers to fund pension costs in line with CWS's market competitors beginning with this rate cycle. ORA's recommendations incorporate the following exclusions from the pension costs funded by ratepayers:

1) Pension costs for new employees
2) A portion of the pension costs for current employees (active participants in the pension plan) in line with the practice of employee contributions by comparable municipal utilities. Specifically, 8% of ORA's projected Test Year 2017 payroll cost subtracted from CWS's 2017 pension cost.

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[43] A.12-07-007, Rebuttal Testimony of Tom Smegal, page 25.

3) Supplemental Executive Retirement Plan (SERP) costs. The SERP benefit is provided only to executive officers and is in addition to the 401(k) plan, stock awards, and pension plan benefits already received by the participating officers. The SERP plan provides additional retirement benefits to executive officers that exceed the amounts allowed for in the qualified pension plan by the IRS. ORA recommends that the Supplement Executive Retirement Plan Costs be removed from the per employee pension expense projections and instead be funded by shareholders.

It remains CWS's decision whether to have employees contribute or have shareholders pay for the difference resulting from the above exclusions from pension costs funded by ratepayers.

To calculate the difference between CWS's and ORA's pension estimates, ORA first used an estimated employee turnover rate of 6.7% based on 2012 GO data, which results in an average three year retention of 89.95% of staff (see **Table 4-D** below).[44] ORA then removed 8% of the projected payroll to incorporate the employer contribution, resulting in a 2017 pension estimate of $11,778,000. The overall effect of ORA's turnover and employer contribution recommendations is a pension cost that is 56.85% of CWS's proposed level ($11,778,000 ÷ $20,718,000 from **Table 4-D** below). The Commission should adopt this percentage in order to calculate the portion of the pension expenses allowed in rates.

[44] A.12-07-007, DR MSD-005.

Table 4-D: ORA Recommended Pension Expense (in $1,000)

		2017	2018	2019
Line A	Annual Turnover	6.7%	6.7%	6.7%
Line B	Beginning of Year	100%	93.3%	86.6%
Line C	End of Year	93.3%	86.6%	79.9%
Line D	Percent Average Retained Employees (Average of Line B and C)	96.65%	89.95%	83.25%
Line E	3 Year Average (Average All Columns in Line D)	89.95%		
Line F	CWS Pension + SERP Expense based on Milliman estimates	$23,465	$22,565	
Line G	CWS Pension Expense excluding SERP based on Milliman estimate	$20,718	$20,460	
Line H	Pension Expense with Turnover (Line E x Line G)	$18,636	$18,403	
Line I	Pension Expense with 8% Employee Salary Contribution (Line G – (8% x ORA 2017 Payroll Estimate))	$13,094	$12,475	
Line J	ORA Pension Estimate: Pension Expense with Turnover and 8% Employee Salary Contribution (Line E x Line I)	$11,778	$11,221	
Line K	CWS > ORA (Line F – Line J)	$11,678	$11,344	

4. Group Health Insurance – Account 7952

CWS currently self-insures and administers its own employee health care plan, meaning that all claims administration is handled in-house. The health care plan includes medical, dental, and vision coverage.

In projecting the 2015-2018 group health insurance costs in the filing, CWS applied its projected employee complements to average per employee health insurance costs that were provided by Milliman. Milliman's projected costs for 2015 through 2018 were based on actuarial estimates. In calculating the projected costs, Milliman assumed annual medical cost inflation of 8% in 2015 through 2018. Milliman assumed dental costs subject to 5% annual inflation and vision costs 3% inflation for 2015 through 2018. In projecting the costs, Milliman also assumed that CWS would make no changes to its current healthcare plan design after April 1, 2015 and that the monthly employee contributions would be set at \$104.69 on April 1, 2015, increasing to \$122.52 January 1, 2016, \$142.51 on January 1, 2017, and \$ 164.90 on January 1, 2018.

The following table summarized CWS's recorded healthcare expenses and requested healthcare expenses for this GRC.

Table 4-E: CWS Historical and Projected Healthcare Expenses

	Recorded					**CWS Estimated**		
	2010	2011	2012	2013	2014	2015	2016	2017
CWS Group Insurance (\$1,000)	\$10,164	\$12,257	\$13,481	\$16,453	\$18,016	\$20,511	\$21,984	\$23,362
% Increase		21%	10%	22%	10%	14%	7%	6%

The Commission routinely relies on economic data prepared by IHS Global Insight to ascertain the level of inflation. IHS Global Insight forecasts that healthcare costs will increase by 2.9%, 3.6%, 4.4%, 3.9%, and 3.8% in years 2015, 2016, 2017, 2018 and 2019 respectively. These health care inflation factors are higher than the Consumer Price Index (CPI) inflation factors listed in ORA's Escalation Memo that incorporates projections prepared by IHS Global Insight and are significantly lower than the assumed inflation requested by CWS.

Based on the foregoing findings, ORA recommends that the Commission reject CWS's 8% escalation assumption for its medical costs, 5% for dental costs and 3% for vision costs for 2015 through 2018. ORA further recommends that CWS's Medical, Dental, and Vision health care costs should be escalated based on IHS estimates of 2.9%, 3.6%, 4.4%, 3.9%, and 3.8% in years 2015, 2016, 2017, 2018 and 2019 respectively. Any difference between authorized and recorded healthcare costs will be tracked in the Health Cost Balancing

Account (HCBA). The HCBA is discussed in further in detail in Chapter 7 of this Report. Based on ORA's recommendations, the total cost estimates for GSWC's group healthcare is $20,051,277 in Test Year 2017.

5. Retiree Group Health Insurance – Account 7952-1

CWS administers and self-insures its own retiree health care plan. The retiree health care plan provides full coverage for employees not yet eligible for Medicare and provides supplemental coverage for Medicare enrollees. CWS's retirees pay a monthly premium of $394 per person and a premium of $788 per month for retiree and spouse for medical, $29 for dental and $5 for vision coverage. The premium declines to $156 per person when the retiree receives Medicare or other coverage.[45] The projected retiree group health insurance expense provided by Milliman assumes that the employee premiums are adjusted periodically to maintain a level equal to 50% of expected medical claims.

CWS asserts that its retiree group health care plan is funded in advance in accordance with SFAS 106, which requires that annual funding of the plan be based on an actuarial analysis of the expected future expense arising during the employee service time. CWS's estimate of retiree group health funding is based on an actuarial analysis from Milliman, including an estimate for the total expense for 2015-2018. The resulting average cost per active employee calculated by Milliman was $8,598 for 2015, $7,163 for 2016, $6,051 for 2017, and $6,292 for 2018. CWS applied the average cost per active employee provided by Milliman to the projected employee complement contained in the filing for each year, 2015 through 2018.

ORA accepts Milliman's projected average cost per active employee. The only difference between CWS's requested retiree group health care plan costs and ORA's recommended amounts is the result of ORA's recommended employee complements differing from those proposed by CWS.

[45] CWS General Report (Including Customer Support Services), page 72.

6. Workers' Compensation Insurance – Account 7941

CWS currently self-insures for workers' compensation costs. Historically, CWS has recovered workers' compensation insurance costs in rates based on a pay as-you-go methodology. These estimates are intended to cover expenses for claims that are paid during the current year. The General Report, at page 67, indicates the test year costs were based on actuarial expectations provided by Milliman.

The discussion also indicates that the cost projections include not only the amount of current expenses, but also expected future expenses arising from present injuries as well as an amortization for the accrued liability in the account from past injuries, with amortization occurring over a seven-year period.

The self-insured workers' compensation insurance expense incorporated in the Injuries and Damages expense account 794 in the filing is based on accident year funding estimates which were provided to the Company from Milliman on June 2, 2015. Using actuarial methods and annual trend assumptions based on information from the Workers' Compensation Insurance Rating Bureau of California (WCIRB), Milliman calculated funding estimates for 2015 through 2019. The funding estimates equal the projected exposures (payroll) multiplied by the loss rate, also called the pure premium or funding rate (losses per $100 of payroll).[46] Milliman's estimates are reproduced in **Table 4-F**:

[46] Loss generally refers to the amount paid or expected to be paid for medical and indemnity benefits on a claim. See http://www.wcirb.com/glossary.

Table 4-F: CWS Funding Estimates Based on Milliman's Analysis ($000)

Year	(1) Projected Payroll	(2) Estimated Funding Rate	(3) Expected Losses (1) X (2) / 100
2015	**$87,974**	**$3.40**	**$2,991**
2016	**$90,834**	**$3.51**	**$3,188**
2017	**$93,786**	**$3.64**	**$3,414**
2018	**$96,834**	**$3.80**	**$3,680**
2019	**$99,981**	**$3.96**	**$3,959**

Milliman uses a "selected" pure premium rate of $3.40 for 2015 (column (2) in the table above).[47] There is no calculation or explanation provided for this estimate. In addition, several significant assumptions had to be made by CWS and by Milliman in projecting the future expenses. The further out the estimates, the more speculative they become.

In the absence of CWS justification for its estimate, using the five-year average to estimate an expense is consistent with the rate case plan. ORA recommends that the Test Year 2017 workers compensation estimate be based on the inflation adjusted 2010 through 2014 five-year average of recorded expenses in Account 794 (WP5A2 through WP5A6). The 2014 base year adjusted five-year average is $2,346,434, and the Test Year total funding estimate with the appropriate ORA escalation factors applied is $2,438,003. The result is a $975,997 reduction to CWS's projected Test Year 2017 expense for workers' compensation.[48]

Workers' compensation is estimated on a company-wide basis and allocated based on the 2014 recorded payroll in each district. For the 2017 Test Year, Milliman projects a company-wide cost of $3,414,000 (see **Table 4-F** above). CWS then applied a 77% factor to this amount in workpaper 6B5a to reflect 77% of the costs going to expense and a 23% capitalization factor. After application of the 77% expense factor, $904,716 is allocated to

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[47] Letter from Milliman Re: Funding Estimates for Calendar Years 2015 through 2017 – Workers Compensation, Dated June 2, 2014, Exhibit 2 (provided in PA).

[48] $3,414,000 – $2,438,003 = $975,997

CSS/GO operations for 2017. CWS then removes the requested $211,000 salary for the Disability Case Manager position from the workers' compensation estimate for a Test Year 2017 CSS/GO cost of $693,740. ORA accepts CWS's capitalization factor and methodology for allocating district expenses. As discussed in Chapter 2, ORA disallows the salary associated with the Disability Case Manager position and removes this reduction from the workers' compensation estimate. The result is $646,075 allocated to CSS/GO operations, incorporated in the Injuries and Damages expense account 794. A discussion of Injuries and Damages expense Account 794 can be found in Report on Operating Expenses Chapter 3.

D. CONCLUSION

ORA makes several recommendations regarding CWS's request for its pension, benefits and workers compensation expenses. ORA recommends the Commission adopt ORA's recommended amounts for Account 795 and subaccount 7941.

Chapter 5: Account 791 – A&G Salaries (Excluding Payroll)

A. INTRODUCTION

This chapter presents ORA's analysis and estimates for Account 791 – A&G Salaries. ORA's discussion presented herein focus on adjustments made to CWS's estimates. The resulting adjustments are reflected in ORA's Results of Operations (RO) tables included in ORA's Company-Wide Report On Results of Operations.

B. SUMMARY OF RECOMMENDATIONS

ORA recommends that the expense included by CWS for stock awards and cash bonuses granted to executive officers be removed from the revenue requirement. For clarity and consistency, ORA refers to expenses for stock awards and cash bonuses as Incentive Compensation in this chapter. As a result, ORA's recommended expense for CSS/GO Account 791 – A&G Salaries (Excluding Payroll) is $70,000 for 2017.[49] CWS's estimate for this account is $2,956,700 for 2017.

C. DISCUSSION

CWS's filing includes $2,956,700 in Test Year 2017 for CSS/GO Account 791 – A&G Salaries (Excluding Payroll). The main component of this expense account is for the provision of stock awards to executive officers. ORA recommends that expenses in Account 791 – A&G Salaries (Excluding Payroll) be reduced to $70,000 for Test Year 2017. The difference between ORA and CWS estimates is that ORA recommends the Incentive Compensation expenses be removed in their entirety.

CWS asserts that the non-payroll charges to this account "are miscellaneous charges" and that "Cal Water uses the standard five-year average adjusted for estimated plan

[49] All numbers in this chapter have been rounded to the nearest hundred.

performance."[50] However, this is not an accurate description of what is included in the account or of how the requested amounts were derived. The majority of the projected costs are for stock awards and bonuses granted to executive officers of CWS. The remaining amount is related to Dominguez/CWS merger synergies.

1. Executive Compensation

CWS executive compensation is comprised of the following elements:

1. Salary;[51]
2. Performance and Time-Based Equity Compensation;
   - 50% of long-term equity incentive compensation in the form of restricted stock units (RSUs) subject to three-year performance-based vesting criteria, and 50% in the form of time-based restricted stock awards (RSAs) vesting over three years;
3. Short-Term Incentive (STI) Bonuses
   - Beginning in 2014, short-term performance-based compensation in the form of annual cash bonuses;
4. Basic and Supplemental Pension Plan Benefits;[52]
5. Deferred Compensation Plan Benefits – 401(k);[53] and
6. Perquisites
   - CWS's executive officers have use of company-owned automobiles plus excess liability insurance.

[50] CWS General Report on Results of Operations, p. 66.

[51] Executive officer salary expenses are included in CSS payroll discussed in Chapter 2.

[52] The Pension Plan and Supplemental Executive Retirement Plan are discussed in detail in Chapter 4.

[53] 401(k) expenses are discussed in detail in Chapter 4.

Account 791 includes projected expenses associated with Incentive Compensation, described in items 2 and 3 in the above list. ORA sent a data request and received the following information regarding 2014 expenses recorded in Account 791:

ORA DR JE6-014, Question 2: Please explain fully and in detail the amount of $2,037,428 recorded in GO WP5A6 2014 Account 791000 (Cells F221, H221, I221).

CWS Response: Please see table below.

73_INCEN	$295,483.00	This records the accrual of Officer's bonus payable in March of 2015.
73_RSU	$638,425.36	These represent the Restricted Shares Units granted to the Officers. These are amortized monthly but paid quarterly.
73_STK	$1,102,501.84	These represent the Restricted Shares Awards granted to the Officers. These are amortized monthly.
	$1,017.75	Miscellaneous expense reports.
	$2,037,427.95	

CWS WP6B2 shows that the costs recorded in this account were $700,000 in 2010 and $839,700 in 2011. D.14-08-011 from the last CWS rate case adopted an expense for this account of $1,067,400 for 2014. In the current case, the requested amount for 2017 jumps to $2,956,719. The following table presents the amount authorized for Test Year 2014 in the last rate case, the last five years of recorded data, and the amount requested in this rate case for Test Year 2017:

Table 5-A: CSS/GO Account 791 – A&G Salaries (Excluding Payroll)

	2010	2011	2012	2013	2014	Test Year 2017
Authorized in D.14-08-011					$1,067,400	
CWS Recorded	$700,000	$839,700	$985,300	$1,483,000	$2,037,400	
CWS Requested						$2,956,700

The significant increase above historic levels and above the amount projected in the prior rate case is due to the amount included by CWS for executive officer stock awards and cash bonuses granted under the executive Incentive Compensation plan. Changes to executive Incentive Compensation since 2012 include the introduction of short-term performance-based compensation in the form of annual cash bonuses, increase in the level of equity compensation in the form of RSUs, and a decrease in the vesting period for equity compensation.[54]

The Organization and Compensation Committee (Committee) of the Board of Directors administers CWS's compensation plans and programs for board members and executive officers.[55] The Committee developed the following recommendations for Incentive Compensation, included in Account 791.

Table 5-B: CWS Estimates - Officer Equity and STI Expense[56]

*** BEGIN CONFIDENTIAL ***

	2015	2016	2017
Officer RSU Awards	[redacted]	[redacted]	[redacted]
Officer RSA Awards	[redacted]	[redacted]	[redacted]
Officer STI Awards	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

*** END CONFIDENTIAL ***

CWS states the RSU awards are performance-based and only earned upon the achievement of performance criteria at the end of a three year vesting period.[57] CWS's request assumes

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[54] California Water Service Group Proxy 2012 Statement, page 23 and California Water Service Group 2013 10-K and Proxy Statement, page 30.

[55] California Water Service Group 2013 10-K and Proxy Statement, page 39.

[56] Workpaper "ESt 2017 Officer Equity and STI Exp (Confidential)."

[57] "The performance objectives include achieving the budgeted return on equity, budgeted investment in utility plant, customer service standards, employee safety standards and water quality standards." See: California Water Service Group 2014 Form 10-K, page 87.

all eligible executive officers become vested and fully meet or exceed the performance criteria.

The RSA awards granted to executive officers vest over three years, with one-third of the RSAs vesting on the first anniversary of the grant date and the remaining two-thirds vesting ratably over the next two years. RSA awards granted before 2014 vested over 48 months.[58]

*** BEGIN CONFIDENTIAL *** [redacted][59] *** END CONFIDENTIAL ***

2. CWS's Forecasting Methodology

CWS's estimates $3,005,100 in 2015 expenses in Account 791. To estimate 2015 expenses, CWS begins with 2014 recorded expenses in Account 791 [$2,037,400], adds synergies from the Dominguez merger authorized in D.06-08-011 [$70,000], and then adds the difference between CWS's estimated 2015 Incentive Compensation [$2,934,100] and the recorded 2014 Incentive Compensation [$2,036,400].[60]

CWS estimates $2,948,500 in 2016 expenses in Account 791. To estimates 2016 expenses, CWS begins with the 2015 estimate [$3,005,100] and adds the difference between CWS's estimated 2016 Incentive Compensation [$2,877,500] and CWS's 2015 estimated Incentive Compensation [$2,934,100].

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[58] California Water Service Group 2014 Form 10-K, page 87.

[59] Workpaper "ESt 2017 Officer Equity and STI Exp (Confidential)"

[60] Of the $2,037,400 recorded in Account 791 in 2014, $2,036,400 is for Incentive Compensation, and $1,000 is for "miscellaneous expense reports" according to CWS's Response to ORA DR JE6-014, Question 2 described earlier in this chapter.

CWS estimates $2,956,700 in Test Year 2017 expenses in Account 791. To estimate 2017 expenses, CWS begins with the 2016 estimate [$2,948,500] and adds the difference between CWS's estimated 2017 Incentive Compensation [$2,885,700] and CWS's 2016 estimated Incentive Compensation [$2,877,500].

ORA recommends that the amortization of executive incentive awards be removed in their entirety. The California Water Service Group Proxy Statement, issued April 13, 2012, describes the purpose of the executive Incentive Compensation plan as: "…to align executive compensation with stockholder interests, to create incentive for executive recruiting and retention, to encourage long-term performance by the Group's executive officers, and to promote stock ownership and therefore alignment with shareholder interests." Clearly the focus of the plan is entirely for stockholder interests, not ratepayers. The costs of the plan should be funded by the stockholders as they are the primary beneficiaries and the focus of the plan.

The April 2012 proxy statement also indicates that the total value of the Incentive Compensation awards to be granted to the Chief Executive Officer and other executive officers for 2012 was $400,000 for the Chief Executive Officer and $90,000 for each of the other executive officers. These numbers increased to $500,000 and $120,000, respectively, in 2013. By 2015 the CEO Incentive Compensation increased to $550,000. These amounts are above and beyond the base salaries and Supplemental Executive Retirement Plan compensation earned by the executive officers. Removal of the costs associated with the Incentive Compensation also results in a more reasonable level of overall executive compensation costs for the executive officer group as a whole being included in test year expenses to be passed on to ratepayers.

Additional proxy materials issued by California Water Service Group on May 22, 2012, indicate that the pay structure reflects the regulated business model.

Specifically, the information states as follows:

> Historically, the Compensation Committee has not used annual bonuses or other types of short-term incentive plans, rather has chosen to use long-term incentives to align executive compensation with long-term results. The Compensation Committee is

> mindful that as a holding company for water regulated utilities, financial performance is significantly dependent upon regulatory actions. In addition, ***there is no rate recovery mechanism for incentive compensation, so that any costs associated with such plans must be paid solely by the shareholders and not recovered in rates***. [Emphasis added.]

The additional proxy materials statement that costs associated with Incentive Compensation "…must be paid solely by the shareholders and not recovered in rates" refers to long term equity incentives that were provided to executive officers at that time. Nevertheless, CWS's current GRC Application includes long term incentives, i.e., the stock award costs, in Account 791 – A&G Salaries (Excluding Payroll). This would pass the costs onto the Company's ratepayers instead of the shareholders who benefit from the long term equity incentive plan.

D. CONCLUSION

ORA recommends that the expense included by CWS in its filing for the executive Incentive Compensation awards be removed.

Chapter 6: Continuation of Pension Cost Balancing Account

A. INTRODUCTION

This chapter addresses the appropriateness of continuation of the Pension Cost Balancing Account in General Rate Case Application (A.) 15-07-015 filed by California Water Service Company (CWS). A discussion of the balance in the account can be found in ORA's Report on Special Requests 1, 2, 5, 11, 17 and 23 (Selected Balancing and Memorandum Accounts), Chapter 4. A discussion of pension expenses can be found in Chapter 4 of this Report. In developing its recommendations, ORA reviewed CWS's Testimony of Tom Smegal, Preliminary Statements AA1 and AA2 associated with CWS's past and current pension cost balancing accounts, CWS's two most recent general rate case decisions, Decision (D.) 10-12-017 and D.14-08-011, Advice Letter (AL) 2153 addressing balancing and memorandum account amortization, and CWS responses to ORA data requests.

B. SUMMARY OF RECOMMENDATIONS

CWS requests the continuation of the two-way Pension Cost Balancing Account (PCBA). ORA does not object to continuation of the balancing account subject to agreement on the portion of the pension expenses allowed in rates, as discussed in Chapter 4 as well as several other conditions as follows: ORA recommends changes to the language in the associated preliminary statement (see Appendix B), cost sharing if actual expenses differ from adopted expenses, and that the Supplemental Executive Retirement Plan (SERP) expense be excluded from the pension cost balancing account going forward.

C. DISCUSSION

In D.10-12-017 (the 2009 General Rate Case (GRC) Decision), the Commission authorized the creation of the PCBA to track the difference between actual and authorized pension expenses for the period from January 1, 2011 through December 31, 2013.[61] The Company filed AL 2017 on January 31, 2011, pursuant to D.10-12-017 to implement a pension cost balancing account.

Preliminary Statement AA1[62] states the purpose of the PCBA is:

> "The PCBA will track the difference between the adopted pension expense and the total actual cost incurred as expense in California-regulated operations. The adopted and tracked expenses include only the expensed portion of benefits and exclude pension costs assigned to capitalized overhead, capitalized projects, out of state affiliates, and unregulated entities."

The Commission resolved CWS's 2012 GRC in D.14-08-011 on August 14, 2014 and authorized the amortization of several balancing accounts, including the PCBA, within 120 days of the decision. CWS filed AL 2153 on December 12, 2014 and AL 2153-A on January 22, 2015 seeking to amortize the PCBA under-collection balance of $3,007,305.

In D.14-08-011 (the 2012 GRC Decision), the Commission adopted a settlement on pension expenses for the total 3-year GRC period of 2014-2016, as well as a new two-way PCBA similar to that authorized in the 2009 GRC.

In the instant GRC, CWS requests continuation of the PCBA due to volatility in pension funding requirements on a year-to-year basis.[63] Since some of the changes in the annual pension contribution amount are based on factors outside of CWS's control, ORA does not object to CWS's request to continue the PCBA, subject to agreement on issues described below.

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[61] D.10-12-017, p. 36.

[62] When the PCBA was first authorized for years 2011-2013 in D.10-12-017, CWS added "Preliminary Statement AA" to its tariff. When the PCBA account was adopted in the subsequent GRC (D.14-08-011), in order to track balances separately, Preliminary Statement AA was renamed "AA1" to track balances for 2011-2013 and "Preliminary Statement AA2" was designated to track balances for 2014-2016. *See*: D.14-08-011, Appendix B Settlement, pages 45-46.

[63] CWS Prepared Testimony of Tom Smegal, p. 113.

CWS makes contributions to the pension plan based on the amounts calculated in the annual actuarial valuation in order for the plan to achieve the returns necessary to pay benefits to retirees now and in the future. ORA requested statements of cash transfers to the pension plan and actuarial valuations to confirm CWS is making the contributions and that the contributions are based on the amounts calculated by an actuary.[64]

The PCBA is authorized to track the difference between recorded cash contributions to the pension plan with recovery of this expense for ratemaking purposes capped at the level of pension expense calculated according to the method prescribed in the Financial Accounting Standards Board Statement of Financial Accounting Standards #87 (FASB 87) for each year. Preliminary Statement AA2 describes what the PCBA authorized for 2014-2016 tracks:

> "Annual Pension expense as determined by CWS's actuarial expert, which will be the amount of pension expense that will be recorded by CWS for financial reporting purposes."

If the PCBA is continued, the language in the preliminary statement should be modified to reflect two changes. First, the language in the preliminary statement should be amended to clarify that the account tracks actual dollar contributions to the plan up to the reported amount. Numerous studies document the importance of making consistent and adequate contributions to fund pension benefits. The PCBA language should specify that the money being collected in rates is being used for its intended purpose (See Appendix-B).

Second, in Chapter 4 of this Report, ORA recommends adjustments to the level of pension expense included in rates. Recovery under the PCBA should be limited to the <u>portion of the pension expenses allowed in rates</u>, as described in Chapter 4 of this Report. To determine this amount, the capitalized portion of pension costs at the adopted capitalization ratio should be removed from the total annual contributions to the pension plan per FASB 87[65].

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[64] CWS Response to ORA Data Request JE6-009, Questions 1-3.

[65] See ORA's Report On Special Requests 1, 2, 5, 11, 17 and 23 (Selected Balancing and Memorandum Accounts), Chapter 4.C.18 for more detail.

Assuming CWS continues its pension plan benefits as proposed in this GRC, the resulting pension expense amount should be further discounted to correspond to ORA's recommendations on the portion of pension expenses allowed in rates. This equals an allowed pension cost that is 56.85% of CWS's proposed level due to an annual turnover percentage of 6.7% and an additional 8% of the company-wide payroll expense removed to account for the employer pickup of the cost. See Table 4-D in Chapter 4 for further detail regarding this calculation.

Additionally, ORA recommends that the SERP expense be excluded from the PCBA going forward, consistent with ORA's discussion of SERP expense in Chapter 4. The SERP is a deferred compensation plan for executives designed to avoid limitations set by the Internal Revenue Code on allocations and benefits that may by paid under the tax-qualified Pension Plan. In other words, benefits under the SERP are obtained by applying the benefit provisions of the Pension Plan, a tax-qualified plan, to all compensation included under the pension plan, without regard to tax code restrictions.

The PCBA balances should be reviewed in the next rate case to determine whether the account is continued. A further discussion of pension expense can be found in Chapter 4.

ORA recommends that if the PCBA continues, it should follow the same accounting procedure as the Health Cost Balancing Account. Under this proposal, 85% of the difference between the adopted pension expenses and the actual incurred pension expenses shall be included in the PCBA, as either a debit or a credit balance depending upon if the actual expenses exceed or are less than the amounts adopted in rates. This incentivizes the company to effectively manage its costs and shares the risk associated with uncertain pension expenses.

D. CONCLUSION

ORA reviewed CWS's request to continue the PCBA for this rate case cycle. ORA does not object to CWS's request to continue the PCBA, on the following conditions:

1) the PCBA only includes the portion of the pension expenses allowed in rates, as described in Chapter 4 of this Report;

2) the preliminary statement should be updated as shown in Appendix-B to clarify that the account tracks actual dollar contributions to the plan up to the reported amount;
3) the PCBA should not include the SERP expense;
4) 85% of the difference between adopted and actual pension expenses should be included in the PCBA.

Chapter 7: Continuation of Health Cost Balancing Account

A. INTRODUCTION

This chapter addresses the appropriateness of continuation of the Health Cost Balancing Account (HCBA) in General Rate Case Application 15-07-015 filed by California Water Service Company (CWS). A discussion of the balance in the account can be found in Report on Special Requests 1, 2, 5, 11, 17 and 23 (Selected Balancing and Memorandum Accounts), Chapter 4. A discussion of health care expense estimates can be found in Chapter 4 of this Report. In developing recommendations, ORA reviewed CWS's Testimony of Tom Smegal, Decision (D.) 10-12-017 and D.14-08-011, and CWS's responses to data requests.

B. SUMMARY OF RECOMMENDATIONS

CWS requests the continuation of the two-way HCBA. ORA does not object to continuation of the balancing account for this rate case cycle. However, as discussed in ORA's Report On Special Requests 1, 2, 5, 11, 17 and 23 (Selected Balancing and Memorandum Accounts), Chapter 4.C.19, the adopted capitalization ratio for expensed to capitalized health care costs should be used in the calculation of the account balance.

C. DISCUSSION

The settlement approved in D.10-12-017 (CWS's 2009 GRC) authorized CWS to implement a memorandum account to track costs limited to unknown and potentially significant cost changes related to the federal health care bill passed by Congress in April 2010. As part of the settlement approved in D.14-08-011 (CWS's 2012 GRC) the health care memorandum account was closed and no costs were requested for recovery. Instead, the Commission authorized CWS to open a new HCBA for the period of 2014-2016 to capture changes in healthcare costs, including postretirement benefits other than pension (PBOP)[66], above or below adopted amounts. The way the account works is that 85% of the cost changes in the HCBA flow through to ratepayers, and 15% are at the company's risk. The difference may be either positive or negative depending on how actual health care expenses compare to those included in rates.

CWS claims that because estimates of medical costs in the GRC could be inaccurate, a balancing account will protect ratepayers from an overestimate of future costs and conversely protect the utility from an underestimate. Based on the changes to CWS's healthcare plan discussed in the Benefits section (Chapter 4) of this Report, ORA does not object to the continuation of the HCBA for this rate case cycle with the same 85%:15% cost sharing described above. The continuance of the HCBA is subject to review in the next GRC.

D. CONCLUSION

ORA reviewed CWS's request to continue the HCBA. ORA does not object to CWS' request and recommends that expenses in the account be reviewed in the next rate case to see whether savings have been achieved in healthcare expenses and employee cost sharing.

[66] "Employees retiring at or after age 58, along with their spouses and dependents, continue participation in the [healthcare] plan by payment of a premium. Retired employees are also provided with a five thousand dollar life insurance benefit." *See*: California Water Service Group Form 10-K Filed February 26, 2015, p. 81.

APPENDIX-A: CWS Pension Plan Summary

Effective Date: November 1, 1950.

Latest Amendment: January 1, 2011. An ad-hoc cost-of-living increase was granted to participants who retired prior to July 1, 2008.

Eligibility: An employee becomes a participant on the first of the month coinciding with or next following the later of date of employment or attainment of age 21.

Normal Retirement: Age 65. Annual Benefit is the higher of Basic Benefit or Minimum Benefit as follows:

A. Basic Benefit is the sum of (1) plus (2) plus (3) plus (4):
   1. For service credited prior to 1-1-70:
      a. $43.20 for each year up to 25 years plus
      b. $9.00 for each year in excess of 25 years plus
      c. 24% of Annual Earnings for 1969 in excess of $4,800 reduced 1/15 for each year less than 15 years on 12/31/69.
   2. For service credited after 12/31/69 but prior to 1/1/79:
      a. 1% of Annual Earnings plus
      b. 1% of Annual Earnings in excess of $7,800.
   3. For service credited after 12/31/78 but prior to 1/1/89:
      a. 1.5% of Annual Earnings plus
      b. 1.5% of Annual Earnings in excess of $15,600
   4. For service credited after 12/31/88:
      a. 1.5% of Annual Earnings plus
      b. 0.4% of Annual Earnings in excess of $15,600

B. Minimum Benefit is 1.5% of highest 3-year average Annual Earnings multiplied by service up to 35 years.

Early Retirement: Age 55 and 5 years of participation. Annual benefit is vested accrued benefit, reduced for early commencement by 0% per year for each of the first 5 years preceding age 65, 5% per year for the next 4 years, and 6% per year for the next 1 year.

Deferred Retirement: Annual benefit is normal retirement benefit.

Disabled Participant Benefit: Eligible of Social Security Disability Insurance. Annual Benefit at normal retirement is normal retirement benefit assuming continued employment without change in Earnings. The minimum benefit is based on Social Security Law in effect at date of disability.

Vesting: 100% vested after 5 years of service or attaining age 65.

Form of Benefit: The normal form of benefit is a Life Annuity. However, unless elected otherwise, a married member's benefit will be in the form of a reduced Joint and 50% Survivor Annuity with his or her spouse. Optional benefit forms include 10-Year Certain & Life Annuity, Joint & 50% Survivor Annuity, Joint & 66% Survivor Annuity, Joint & 75% Survivor Annuity, and Joint & 100% Survivor Annuity. The amounts payable on the optional benefit forms are determined by applying plan-specified factors to the amount otherwise payable on the normal form.

Cost-of-Living Adjustment: Annual increase to the retirement benefit, payable each January 1, equal to the lesser of (a) the actual Consumer Price Index for the next 12 month period ending the previous December, or (b) 3%, multiplied by the most recent retirement benefit in effect. However, such an increase shall not be less than 2% multiplied by the most recent retirement benefit in effect. The first increase following retirement is prorated based on the number of months since the retirement date.

Pre-Retirement Death: If a married vested participant or married former participant with deferred vested benefits dies, his spouse will receive, on the participant's earliest retirement age, a Life Annuity equal to 50% of the benefit the participant would have received had he terminated his employment on the date of death and retired on the Qualified Joint and Survivor Annuity form on the date of his earliest retirement age.

Former Dominguez Participants: Benefits as of May 25, 2000 were frozen and are subject to an annual COLA after commencement. Benefits after May 25, 2000 are accrued under the California Water formula.

APPENDIX-B: Proposed Preliminary Statement AA3. Pension Cost Balancing Account (PCBA3)

Note: This Preliminary Statement language assumes CWS implements the pension plan benefit as CWS proposed in this GRC. Changes from CWS's current PCBA2 Preliminary Statement tariff are shown. Underline indicates additions and strike-through font indicates deletions.

1. PURPOSE:

The PCBA3~~2~~ will track the difference between the adopted pension expense and the expensed portion of the recorded cash contributions to the pension plan allowed in rates that CWS ~~total actual cost~~ incurs~~red~~ as expense in California-regulated operations. The adopted and tracked expenses include only the expensed portion of benefits and exclude pension costs assigned to capitalized overhead, capitalized projects, out-of-state affiliates, and unregulated entities.

2. APPLICABILITY:

The PCBA3~~2~~ is effective beginning January 1, 2017~~4~~, through December 31, 2019~~6~~, and applies to all ratemaking areas ("districts") and Customer Support Services (General Office). This excludes out-of-state affiliates and unregulated operation expenses.

3. ACCOUNTING PROCEDURE:

The following entries will be recorded annually to the PCBA3:

a. Annual pension expense capped at the level~~as~~ determined by Cal Water's actuarial expert according to the method prescribed by Statement of Financial Accounting Standards (SFAS) 87, which will be the amount of recorded cash contributions to the pension plan multiplied by the adopted portion of pension expenses allowed in rates (56.85%)~~pension expense that will be recorded by Cal Water for financial reporting purposes~~. The capitalized portion of pension costs at the adopted capitalization ratio will be excluded.

b. The annual amount of pension expense authorized to be collected in rates. This amount includes only the adopted expensed portion of pension costs.

c. The difference between 3.a and 3.b.

d. The sum of entries in item 3.c., all prior year entries in 3.c., and all accumulated interest calculated in 3.e., below.

e. Monthly interest expense calculated on the accumulated balance in 3.d. calculated at 1/12 of the most recent month's interest rate on Commercial Paper, published in the Federal Reserve Statistical Release H.15 or its successor. Note that interest only accrues on expenses after the ~~the~~ annual calculation has been completed.

4. RATEMAKING PROCEDURE:

The PCBA3~~2~~ is recoverable in a Tier 2 advice letter filing if the accumulated balance exceeds 2% of gross adopted revenues for Cal Water in accordance with General Order 96-B and standard practices or by request in the next general rate case. In any filing, Cal Water shall demonstrate its ~~its~~ continued compliance with SFAS 87 and demonstrate that any changes to its expenses were ~~were~~ reasonable and prudently incurred.

In any filing, Cal Water will identify any changes in pension accounting that were required by federal or state law or directed by the Financial Accounting Standards Board. Changes in assumptions reflecting current market, interest rate, or demographic conditions should not be considered "changes in accounting" as these are standard practices used to develop SFAS 87 requirements.